Evaluating the Impact of Zakat on Asnaf's Welfare

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Abstract

Productive Zakat is a support, in the form of business assistance and capitals, given to Mustahiq that is not spent directly on the consumption of specific needs but is developed and used to support Mustahiq’s business so that they can continuously meet their basic needs. Productive Zakat is one of the ways to increase Mustahiq income; hence they can transform into Muzakki in the long run. This quantitative research determines the impact of productive zakat and business assistantship on improving Mustahiq welfare. This research employs Partial Least Square Structural Equation Modelling (PLS-SEM) analysis to identify the causal effect of productive zakat on the welfare of the Mustahiq. The result shows a significant positive impact of productive zakat empowerment on Mustahiq’s welfare. This finding suggests that productive Zakat empowerment by zakat institutions improves Mustahiq welfare.

Keywords: Productive Zakat, Mustahiq Welfare, PLS-SEM

Introduction

Poverty and income inequality remain essential issues in the world, especially for developing countries, including Indonesia. Statistics Indonesia (2020) recorded that the poverty rate in March 2020 reached 26.42 million people. This number has increased when compared to the 2019 data of 24.79 million people. The data shows an increasing trend in the poverty rate by 1.63 million people. This indicates that the welfare of many Indonesians is still below the poverty line.

In many Muslim and developing countries, zakat institutions play an essential function in contributing to poverty reduction. As one of the five pillars of the religion, zakat embraces principles and teachings of social justice, empowerment, and wealth redistribution for its recipients (Zauro et al., 2020). Zakat has several functions and dimensions in terms of personal, social, spiritual, and economical. Therefore, efforts to alleviate poverty were conducted by developing the poor’s capacity with empowering activities aimed at improving welfare and economic independence (Beik, 2011). The use of zakat funds is not only for consumptive purposes but also for productive activities. Unlike consumptive zakat, zakat funds for productive activities can have long-term effects for its recipients. It was noted that in 2019, the potential for zakat in Indonesia reached IDR 233.84 trillion or 3 per cent of Indonesia's GDP. However, the collection of zakat has only reached IDR 10.22 Trillion or equivalent to 4.4 per cent of the potential national zakat collection (National Zakat Statistics, 2019).

Zakat Law No. 23 of 2011 explains the application of zakat for consumptive spending and productive activities. The distribution of zakat through productive programs is expected to have long-term socio-economic impacts, such
as micro-business funding assistance (Beik & Arsyianti, 2015). By receiving productive zakat, recipients who own micro businesses can use the funds to develop their business or, for those who have not owned anything yet, may start a business rather than consuming the zakat funds for everyday consumption. Consequently, in the long run, productive zakat offers more significant impacts on poverty alleviation than consumptive zakat. A thorough evaluation is needed to support the application of productive zakat in increasing mustahiq well-being. Zakat empowerment improves the usability range of zakat, not only in the scope of adherence towards Islamic principles but also to help the mustahiq break out from poverty. Naflah (2015) shows that the utilization of productive zakat owns a positive effect on mustahiq’s welfare. The result is based on the rise of income and better realization of mustahiq needs after participating in an effective zakat empowerment program at such zakat institution. This empirical fact supports the findings of Effendi & Wirawan (2013); Andriati & Huda (2015); Wulansari & Setiawan (2014), which find a positive effect of productive zakat on mustahiq’s welfare. However, Pratama (2015) finds that the implementation of zakat empowerment programs is still inconsistent because of inadequate supervision is given and mismatch between mustahiq’s ability and the required competencies in the program.

This study analyses the effect of productive zakat empowerment and business assistance on mustahiq business growth and their welfare by following Magashid Sharia. This study is an extension study of Beik (2015) and Widyaningsih et al. (2016). One of the prominent differences between the prior studies and this study is on the measurement of mustahiq welfare. Unlike those two studies, this study incorporates Magashid al-Shar’iah (objectives of Islamic legal principles) considerations to measure welfare. Beik (2015) highlights the importance of mustahiq welfare and states that mustahiq welfare must include material and spiritual aspects. This research is expected to provide feedback to zakat institutions and other relevant stakeholders on the importance of productive zakat in improving Mustahiq’s welfare. The results are also likely to provide a reference for implementing zakat distribution management to be more productive and efficient.

The Concept of Productive Zakat

Productive Zakat refers to Zakat in the form of assets, funds, and capital assistance given to mustahiq that are not spent directly on the consumption of particular needs but are developed and used to help the recipients develop their business so that they can meet their basic daily needs continuously (Asnaini, 2008). The distribution of productive Zakat to mustahiq in the form of venture capital aimed to develop consistent economic activities that can improve mustahiq’s quality of life both materially and spiritually. The productive Zakat mechanism realizes an inherent capability of mustahiq in generating business income (Anwar, 2014; Ibrahim, 2014). With this assistance, it is expected that mustahiq improve their well-being standard, and soon, they can transform their status from the recipients of zakat into muzakki.

Furthermore, this type of assistance had also been done by Prophet Muhammad PBUH, where he gave alms to be used by his companions as business capital (Widiastuti et al., 2015). In this regard, Muhamat et al. (2013) find zakat assistance in the form of business capital positively affects the success of mustahiq’s business. Law No. 23 of 2011, article 27, explains that Zakat can be utilized for a productive purpose to improve the quality of ummah. Channelling productive Zakat can be an empowerment program for mustahiq to improve both materially and spiritually. The existence of productive Zakat today is implemented using the contract of mu’dharabah, qard al-hasan, or murabahah. Reinforcing these contracts is an effort to avoid mustahiq from the trap of usury and, at the same time, for their economic empowerment (Anwar, 2014).

The Concept of Mustahiq Welfare

Welfare based on objectives of Shari’ah refers to well-being, which reflects the fulfillment of basic needs, including material and spiritual needs. The realization of these basic needs must accomplish the maintenance of five fundamental aspects, namely religion (ad diinn), soul (an nafs), intellect (al ‘aqil), descent (an nasl), and wealth (al maal) to achieve world and hereafter happiness. Zakaria (2014) finds that providing basic needs from the objective of Shari’ah has a positive effect on the effectiveness of zakat distribution.
According to Asy Syatibi (1997), basic welfare (maslahah daruriyah) for Muslims consists of maintaining five aspects, namely religion (ad diin), soul (an nafs), intellect (al 'aql), family and descendants (an nasl), and wealth (al maal). Ad din, according to Ryandon (2008), is to maintain religion or faith that can be implemented through the practice of pillars of Islam, such as practising the five times daily prayers. An nafs is the need to maintain body and soul by fulfilling the necessities of life. For instance, if the need for food and drink is ignored, it can threaten humans' life. Thus, anything supporting the preservation of this aspect is essential, such as providing halal-tayyib food and beverages, suitable clothes, and proper homes. Al aql is educational needs to increase knowledge and skills so that humans can deliver benefits for others. Business knowledge is a basic need for mustahik to be empowered. An nasl is a need to support their family’s well-being. This need includes the ability to have ease during pregnancy, childbirth, and breastfeeding. Al maal is a property/material that is needed to fulfil all necessities to live justly. Indicator to see al maal includes the ability to provide halal and decent income, and the ability to practice financial savings.

The Impact of Productive Zakat on Mustahiq Welfare

The dimension of Zakat does not include personal or social spiritual dimension only, but also a role in ensuring economic equality, as stated in Al Quran, Chapter 59 Verse 7. Even zakat functions as a strategical source of public finance in efforts to develop the welfare of Ummah (Huda, 2012). Productive Zakat has been empirically proven to improve mustahiq welfare. Nurzaman (2017) shows that Zakat empowerment program increases the score of the human development index, which is one indicator that supports the realization of mustahiq welfare. This positive influence of productive zakat on mustahiq well-being is also found in Faisal & Yuliani (2017) which point out that productivity of Zakat, infak, and sadaqah have a significant positive effect on the growth of micro-businesses and the welfare of mustahiq. Pratama (2015) argues that although productive zakat is relatively small in comparison to Infak and Shadaqah funds, it has a real impact on poverty alleviation and hence on the mustahiq welfare. These findings are further confirmed by Beik and Arsyianti (2016) who find that productive zakat utilization programs increase mustahiq welfare index by 96.8 per cent. Sutrisno and Haron (2020) also state that mustahiq who participate in zakat empowerment program shows improvement in their welfare. However, in contrast to the other studies, Mahmud et al. (2014) find that zakat funds distributed to mustahiq failed to improve the well-being of mustahiq. Zakat failed to significantly increase agricultural production, food expenditure, and food security status of mustahiq.

Hypothesis 1: Productive Zakat positively determines the welfare condition of mustahiq.

The Role of Business Assistantship in Affecting Mustahiq Welfare

Ibrahim (2014) argues that supervision assistance given to zakat recipient can increase the effectiveness of productive zakat to gain mustahiq welfare. Widiastuti et al. (2015) declare that the utilization of productive Zakat can increase mustahiq welfare through the distribution of zakat funds accompanied by coaching and mentoring sessions. Productive Zakat program aims to transform the mindset of mustahiq and provide a valuable lesson that Zakat is not only for consumptive purposes with short-term impact only. Productive Zakat starts by selecting suitable mustahiq, providing training and guidance, and developing their capabilities to have a better mindset and financial independence. Andriati & Huda (2015) examine the quality of business assistance in productive zakat program of Dompet Dhafa Institution and analyze saving behavior of mustahiq and their welfare. By giving excellent quality assistance, the welfare of mustahiq can be achieved. Bonandar (2018) examines the impact of business assistantship in a productive zakat program using a sample of mustahiq located in Samarinda, a city in Kalimantan, Indonesia. The result shows that providing zakat funds and business assistantships positively affects the mustahiq well-being by increasing the household income, wealth, and better education for mustahiq’s family. Besides, zakat institutions play an essential role in improving the welfare of mustahiq by conveying guidance and insightful advice in running their business.
Hypothesis 2: Business assistantship positively determines the welfare condition of mustahiq.

The Role of Income Growth in Affecting Mustahiq Welfare

Several studies analyze the role of income in mustahiq welfare. Cahyadi (2016) states the development of mustahiq business significantly influences their welfare. This study means that growth of business income, business turnover, and profits may impact the welfare of mustahiq. A significant positive effect is also suggested by Tanjung (2019), who finds a positive relationship between business development and welfare. The magnitude increase as operating income has a positive effect on improving welfare.

Hypothesis 3: The growth of income positively determines the welfare condition of mustahiq.

Hypothesis 4: The growth of income acts as a moderating effect of business assistantship on welfare condition of mustahiq.

Methodology

Research Framework

This research is a quantitative study that employs a Partial Least Square Structural Equation Modeling (PLS-SEM) analysis. It is a statistical analysis technique that combines several analytical methods, including factor analysis, path analysis, and regression to interpret the data, assess the model's overall fit, and test the combined structural model, usually in cause and effect relationship. The PLS-SEM is the preferred method for this study because of its predicting orientation of a less-developed theory in the productive zakat empowerment (Hair et al., 2017; and Briliana and Mursito, 2017). The application of this method is divided into the analysis of outer and inner models. The model requires several reliability tests that include the construct validity test and composite reliability test. The study also conducted a path coefficient and adjusted R2 analysis. This study used SMART PLS3 to perform the analysis.

Measures and assessment of the research variables

The variables to examine the determining factors of mustahiq welfare (MW) are productive zakat (PZ), Income Growth (IG) and business assistantship (BA). The model is composed as equation one and illustrated in figure 1:

\[
MW = \alpha + \beta_1 PZ + \beta_2 BA + \beta_3 IG + \beta_4 BA*GI + \varepsilon
\]

(equation 1)

Figure 1. PLS-SEM Model

Data and Characteristics of Sample

The model uses primary data from questionnaires of 38 mustahiq respondents participated in the zakat empowerment program from several zakat institutions in East Java Province, Indonesia. The respondents consist of 21 respondents from Yatim Mandiri Zakat Institution, 13 respondents from Dompet Dhuafa, and four respondents from Dompet Amanah Umat Sidoarjo. The samples are selected using purposive sampling method with several criteria that include (1) mustahiq must receive Zakat Productive Empowerment program from zakat institution in Indonesia, (2) mustahiq is running a business and (3) mustahiq must have accounting report of their business activities (at least income and expenses reports). Data collection was carried out during COVID-19 pandemic outbreak. The process of data collection applies health protocols following the government's standards and instructions from the Indonesia Ministry of Health.

Results and Discussion

The measurement evaluation consists of several stages: construct validity test, composite reliability test, path coefficient and R2 analysis adjustment. The construct is considered as good construct validity if the value of the average variance extracted (AVE) is higher than 5 per cent (Abdillah & Jogiyanto, 2016). The construct validity test results are explained in the following table:
The reliability test is based on the value of Cronbach’s alpha and composite reliability. A construct can be reliable if it has a Cronbach’s alpha value greater than 0.6, and composite reliability value is more significant than 0.7. Composite reliability measures the actual reliability value of a variable. In contrast, Cronbach’s alpha measures the lowest value of a variable’s reliability so that composite reliability value is always higher than Cronbach’s alpha value (Abdullah & Jogiyanto, 2016). The following table shows the values of Cronbach’s alpha and composite reliability of each variable in this study:

Based on data processing in Table 1 and 2, the results exhibit that the indicators of the four variables fulfill the validity and reliability tests. Hence, the indicators of these four variables can be used to measure the construct in the study. Here is a figure showing the path coefficient:

Data processing through Partial Least Square Analysis is considered to be significant if the t-statistics value of measured items is higher than 1.96, and the p-value is less than 0.05 at 5% significance level. Simultaneously, the parameter coefficient indicates the direction of influence by looking at positive or negative original sample and magnitude of the impact of exogenous variables on endogenous variables (Ghozali, 2008). The following table is the path coefficient table to show the t-statistic value.

Based on analysis results in Table 3, productive zakat is the only variable that has a significant positive influence on mustahiq welfare and confirmed the first hypothesis. This result confirms the concept and role of productive zakat in poverty alleviation by increasing mustahiq welfare. The funds acquired by mustahiq can be used to develop their business so that mustahiq can continuously fulfill their basic needs, keep their business be sustainable and, in the long run, they might be transformed into muzakkis. This finding is in line with Beik’s (2015) and Widyaningsih et al. (2016), which found a positive relation of productive zakat programs and poverty alleviation and welfare. The utilization of zakat through productive programs can increase mustahiq welfare, which is characterized by a decrease in the index of absolute poverty, material poverty, and spiritual poverty. This result also supports Rusli et al. (2013), Muda & Arfan (2016), Sartika (2008), and Nafiah (2015), which found a positive relation between zakat empowerment program and mustahiq welfare. The provision of productive zakat is further expected to break the cycle of poverty caused by low productivity, especially related to limited access to business capital (Muda & Arfan, 2016). Difficult access to business capital is a severe problem faced by mustahiq. The difficult access to business capital for rural poor is also mentioned by Fianto et al. (2018). Access to finance is essential and has substantial economic and social impacts on the poor; however, formal financial institutions (e.g., banks) demand explicit collateral and wealth claims to take credit. For those who cannot provide these requirements are considered to be unbankable. These requirements are significant obstacles for the poor rural community in obtaining finance sources to support their business activities.
The insignificant effect of business assistantship opposes findings of Widiastuti et al. (2015), Andriati & Huda (2015), Bonandar (2018), which found zakat assistantship play a significant role in determining the mustahiq welfare. This result might be due to the period of the previous research carried out, which is in normal condition, while this research is carried out during Covid-19 pandemic period. In this condition, the government applies social restrictions on a national scale. The policy impacts the zakat institutions by hampering the institution from conducting visitations to monitor and examine the development of mustahiq businesses. In some other zakat institution, this pandemic causes various empowerment programs being delayed to next period. Consequently, many mustahiq see this factor as an unnecessary factor that affects their welfare.

The insignificant effect of income growth in affecting mustahiq welfare also opposes Cahyadi (2016) and Tanjung (2019)’s findings, which showed a positive relationship between business development and mustahiq welfare. A possible explanation of this result is that because the welfare in this research is measured not only based on the monetary or wealth aspects, but also non-monetary or wealth elements such as religious observance, personal safety, the fulfilment of educational needs, and maintaining the sanctity of the offsprings. Thus, income growth might not be the essential factor in affecting the mustahiq’s welfare.

Conclusion

This study confirms the role of zakat empowerment program in mustahiq’s welfare. The variables of income growth and business assistantship do not play significant roles in determining mustahiq welfare, by measurement using both monetary and non-monetary aspects. mustahiq welfare is not only about economic aspects, but also considers other objectives of maqashid. Further, the social restriction and physical distancing enforced by government hinder assistantship of zakat institutions. One of the limitations of this study is that this study only uses variables of productive zakat, assistantship, and income growth in determining welfare. Several variables may be introduced for further studies in determining the level of welfare such as economic conditions, how much funds given to the mustahiq, and the characteristics of the mustahiq.

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